

MARKET CONDUCT EXAMINATION

PEMCO LIFE INSURANCE COMPANY

**325 Eastlake Avenue East
Seattle, Washington 98109-5466**

**Examination Period:
January 1, 2001 – September 30, 2002**



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The Honorable Mike Kreidler
Washington State Insurance Commissioner
P.O. Box 40255
Olympia, Washington 98504

Dear Commissioner Kreidler:

Pursuant to your instructions and in compliance with the statutory requirements of Chapter 48.03, RCW and procedures promulgated by the National Association of Insurance Commissioners and the Office of the Insurance Commissioner (OIC), an examination of the market conduct affairs has been performed of:

Pemco Life Insurance Company, NAIC #71803
325 Eastlake Avenue East
Seattle, Washington

In this report, Pemco Life Insurance Company is referred to as the Company, Pemco or Pemco Life.

This report of examination is respectfully submitted.

**CHIEF EXAMINER'S REPORT CERTIFICATION and
ACKNOWLEDGEMENTS**

This examination was conducted in accordance with Office of Insurance Commissioner and National Association of Insurance Commissioners procedures for market conduct examinations. Leslie Krier, AIE, FLMI; George Lazur, CIE, CPCU; and Charlotte Wright of the Washington State Office of Insurance Commissioner performed this examination and participated in the preparation of this report.

The examiners wish to express appreciation for the courtesy and cooperation extended to them by the personnel at Pemco Life.

I certify that the following is the report of the examination, that I have reviewed this report in conjunction with pertinent examination work papers, that this report meets the provisions for such reports prescribed by the Office of Insurance Commissioner and that this report is true and correct to the best of my knowledge and belief.



Leslie A. Krier, AIE, FLMI
Chief Market Conduct Examiner
Office of the Insurance Commissioner
State of Washington

FOREWORD

This examination was completed by applying tests to each examination standard. Each test applied during the examination is stated in this report and the results are reported. Exceptions are noted as part of the comments for the applied test.

Throughout the report, where cited, RCW refers to the Revised Code of Washington, and WAC refers to Washington Administrative Code.

Scope

Time Frame

This was the first market conduct examination of Pemco Life. The examination covered operations from January 1, 2001 through September 30, 2002. In some instances, the review period may be extended to cover a more current time frame. These areas will be noted in the report. This examination was performed both in the Company's office in Seattle, Washington and in the OIC Seattle Office.

Matters Examined

The examination included a review of the following areas:

Advertising	Agent Activity
Complaints	Underwriting & Policy Issue
Policy Replacements	Inforce Policy Administration
Policy Form Filing	Death Claims
Disability/Waiver of Premium Claims	

Sampling Standards

Methodology

In general, the sample for each test utilized in this examination falls within the following guidelines:

92 %	Confidence Level
+/- 5 %	Mathematical Tolerance.

Regulatory Standards

Market conduct samples are tested for compliance with standards established by the OIC. The tests applied to sampled data will result in an error ratio, which determines whether or not a standard is met. If the error ratio found in the sample is, generally, less than 5%, the standard will be considered as met. The standards in the areas of agent licensing and

appointment, and policy and form filings will not be met if any violation is identified. This will also apply when all records are examined, in lieu of a sample. For those standards, which look for the existence of written procedures, or a process to be in place, the standard will be met based on the examiner's analysis of those procedures or processes. The analysis will include a determination of whether or not the company follows established procedures.

Standards will be reported as Passed (without Comment), Passed with Comment or Failed. The definition of each category follows:

Passed	There were no findings for the standard.
Passed with Comment	Errors in the records reviewed fell within the tolerance level for that standard.
Failed	Errors in the records reviewed fell outside of the tolerance level established for the standard.

**COMPANY HISTORY
TERRITORY OF OPERATIONS
MANAGEMENT**

Pemco Life Insurance Company was issued a certificate of authority by the Office of Insurance Commissioner June 11, 1963. The Company is a domestic life insurance company holding a life and disability Certificate of Authority, and writes business only in the state of Washington. The Company was established to provide group and credit life products to members of the Washington School Employees Credit Union. It has evolved to its present mission which is to provide a product line of individual life products that are primarily marketed via in-house agents. Products are also sold by independent agents in connection with a property and casualty product sale. Currently, the Company has two life products, Cornerstone Whole Life and SecureTerm. The Company continues to market a small amount of credit life product as well.

The Company is wholly owned by Pemco Corporation. It is part of the Pemco family of companies which are in the banking, credit union, leasing, data processing and insurance agency business as well as property and casualty insurance.

The president of Pemco Life is Stan W. McNaughton. The Board of Directors is made up of five members: Diane K. Beckley, Gayle C. Glass, Hugh R. McGough, Stan W. McNaughton and Steve A. Ricco.

Findings

Company Operations Standard #2 is not applicable to this examination. The examiners did not review the minutes of the Board of Director meetings.

The Company passed the following Company Operations Standards without comment:

#	Company Operations Standards	Reference
1	The Company is issued a certificate of authority by the Office of Insurance Commissioner prior to acting as a life insurance carrier in the State of Washington.	RCW 48.05.030(1)
3	No less than three-fourths of the directors are United States or Canadian citizens, and a majority of mutual insurer directors are residents of this state.	RCW 48.07.050
4	All domestic insurers report to the OIC any amendments to the Articles of Incorporation.	RCW 48.07.070(2)

GENERAL EXAMINATION STANDARDS

The Company records and operations were reviewed to determine if the Company does business in accordance with the requirements of this state. The examiners found that in

most cases, Company records are in order and the Company follows laws and regulations pertaining to general company operations.

Findings

The Company passed the following General Examination Standards without comment:

#	General Examination Standards	Reference
1	The Company does business in good faith, and practices honesty and equity in all transactions.	RCW 48.01.030
2	The Company allows the examiners access to all records, documents and files, and facilitates the examination process.	RCW 48.03.030(1)
3	The Company does business in its legal name.	RCW 48.05.190(1), Bulletin 78-7
5	The Company does not discourage insureds from contacting the OIC and does not discriminate against those that do contact the OIC.	WAC 284-30-572(2)

The Company failed the following General Examination Standard:

#	General Examination Standards	Reference
4	The Company maintains full and adequate accounts and records of its assets, obligations, transactions and affairs.	RCW 48.05.280

General Examination Standard #4:

Policy records are scanned into a document retrieval system. The examiners found many scanning errors when reviewing policy files. Because of these errors, it was not possible to review complete and accurate company records. The examiners found the following types of errors:

- Misfiled originals were scanned into the wrong files.
- Only one side of a two sided form was scanned
- The bottom or top of a page was cut off.

It appeared to the examiners that the Company did not adequately prepare the files for scanning, and that the Company did not perform a quality check after scanning.

The examiners also found that files provided by the Company for review were missing documents. The areas affected included Underwriting and Policy Issue, Policy Replacements, Policy Administration and Claims:

- There were 34 incomplete files in the Underwriting sample.
- There were 97 incomplete files in the Policy Replacement sample.
- There were five (5) incomplete files in the Policy Administration sample.

- There were two (2) incomplete files in the Disability Waiver of Premium sample.

In the Policy Administration section of the examination, the Company was not able to locate records on 6 policies selected as part of the examiner's sample:

- Two (2) files were missing from the Policy Address Changes sample.
- Two (2) files were missing from the Policy Beneficiary Changes sample.
- Two (2) files were missing from the Policy Reinstatements and Terminations sample.

When asked by the examiners where the records might be, the Company was unable to respond.

Subsequent Event: In 2003 the Company conducted training for the Records staff on preparing files for filming and the handling of life insurance records for record retention. In 2004 the Company conducted a records retention and inventory study to improve the record keeping and filing procedures. The Company is in the process of formalizing a quality control process.

ADVERTISING

The Company advertises its products by various means, usually in connection with the Pemco family of companies. The majority of the advertising materials are institutional, and promote name recognition for Pemco.

The advertising file originally given to the examiners consisted of nine items plus the Pemco website. In reviewing materials, the examiners discovered that the Company had not included 10 solicitation form letters. One of the additional ten was an instructional aid to the agents about the creation of application packages that the Company would create and mail to a proposed insured on behalf of the agents. This item was removed from the sample, leaving a total of 19 items reviewed.

Findings

The following Advertising Standards passed without comment:

#	Advertising Standards	Reference
3	No advertisement shall use any combination of words, symbols or physical materials which by content, phraseology, shape, color or other characteristics are so similar to materials used by a governmental program or agency that tends to mislead prospective insureds into believing that the solicitation is in some manner connected with such governmental program or agency.	WAC 284-23-060(2)
4	Any advertising of the Company's financial condition must substantially correspond with the last annual statement filed with the OIC.	RCW 48.30.070

#	Advertising Standards	Reference
5	The Company does not make, publish, disseminate, circulate, or place before the public in any newspaper, magazine, or other publication, or in the form of a notice, circular, pamphlet, letter, or poster, or over any radio station or television station any advertisement, announcement, or statement which uses the existence of the Washington Insurance Guaranty Association or the Washington Life and Disability Insurance Guaranty Association for the purpose of sales, solicitation, or inducement to purchase any form of insurance covered by the Washington Insurance Guaranty Association Act or the Washington Life and Disability Insurance Guaranty Association Act.	RCW 48.30.075
6	No advertising contains any false or unfair statements criticizing or implying criticism of another insurer.	RCW 48.30.080, WAC 284-23-050(15)
7	The Company does not make, issue or circulate, or cause to be made, issued or circulated any misrepresentation of the terms of any policy, benefit or advantage of the policy, nor does the Company use any name or title of any policy or class of policies misrepresenting the nature of the policy.	RCW 48.30.090
8	The Company establishes and maintains a system of control over the content, form and method of dissemination of all advertisements of its policies.	WAC 284-23-030(2)
10 A	Any advertisement that can reasonably expect to be seen outside of the Company's stated jurisdiction must not imply that the Company is licensed outside that jurisdiction.	WAC 284-23-070(1)
10 B	A Company may state in an advertisement that it is licensed in the state where the advertisement appears but this fact may not be exaggerated.	WAC 284-23-070(2)
10 C	An advertisement may not imply that an insurer is, in any way, recommended or endorsed by any governmental agency unless the entity has authorized the endorsement or recommendation in writing.	WAC 284-23-070(3)
11	Any statements by any commercial rating system about the insurer contained in an advertisement are accompanied with a definition of the scope and extent of the recommendation.	WAC 284-23-080

The following Advertising Standard passed with comment:

#	Advertising Standard	Reference
9	All advertisements meet the disclosure requirements.	WAC 284-23-050

Advertising Standard #9:

One of the 19 items examined, the letter from the COO of PMIC, made a statement based on a customer satisfaction survey that did not identify the source of the statistics. The Company later identified the source as J. D. Power & Associates statistics from 2002.

Subsequent Event: In September 2003, the Company began reviewing all advertising materials for compliance with statutes and regulations.

The following Advertising Standards failed:

#	Advertising Standards	Reference
1	The Company does not use any false, deceptive or misleading information in the conduct of its business.	RCW 48.30.040, WAC 284-23-040(1) and (3)
2	All advertising materials must show the full name and location of the Company.	RCW 48.30.050, WAC 284-23-060(1)
12	The Company maintains a complete advertising file for the longer of four years or the next filing of the next regular report of examination of the insurer, whichever is later.	WAC 284-23-090
13	All life insurance sales illustrations must satisfy the applicable requirements and contain the information described in the regulations.	Chapter 48.23A RCW

Advertising Standard #1:

Two (2) of the 19 items, brochures, #11836.001 11/2001 and #11836.001 11/2002, state that "The American Council of Life Insurers reports that the average American has life insurance equal to 27 months of total disposable income." Although the brochure states the source of the information, the Company fails to state that the figure is from a 1994 Life Insurance Facts book. The Fact book is published every year and the Company admits that the information is outdated and as such is misleading.

Subsequent Event: The brochures have been revised for compliance and reprinted, or discontinued.

Advertising Standard #2:

One (1) of the 19 items, Postcard #55650, did not include the full Company name or the full home office address. It only showed a post office box for an address. Renewal billing brochure #56811 lists the parent company name only.

Advertising Standard #12:

The Company responded to the initial exam request for a listing of all materials in the advertising file by giving the examiners a list of ten items. In reviewing the advertisements and in working on other exam sections, the examiners found nine additional items that should have been included in the file. See Appendix 1.

Subsequent Event: The Company has expanded the advertising file to include all form letters used by all of its sales channels for prospecting new business.

Advertising Standard #13:

The examiners reviewed two (2) current illustration forms and found the following violations:

The whole life product illustration did not contain a statement regarding non-guaranteed elements as required by RCW 48.23A.040(1)(l).

The examiners found that in the Secure Term illustrations, the format did not show the year in which the premiums are scheduled to change as required by RCW 48.23A.040(5)(a).

Subsequent Event: The Company has discontinued use of the product requiring the illustration as of May 21, 2004. The procedures for illustrations have been revised to comply with the regulations and will be adhered to for any future product that may require an illustration.

AGENT ACTIVITY

The Company uses a combination of in-house agents and independent agents to solicit business on its behalf. During the examination period there were about 200 agents appointed with Pemco Life. There were no revoked agent appointments during the examination period.

Findings

Agent Activity Standard # 4 was not applicable to this examination. The Company does not sell any variable policies or contracts.

The following Agent Licensing Standards passed without comment:

#	Agent Activity Standards	Reference
1	The Company ensures that agents and brokers are licensed for the appropriate line of business with the State of Washington prior to allowing them to solicit business or represent the Company in any way.	RCW48.17.060 (1) and (2)
2	The Company ensures that agents are appointed to represent the Company prior to allowing them to solicit business on behalf of the Company.	RCW 48.17.160(1)
3	The Company provides written notice to the agent and the OIC when an agent's appointment is revoked.	RCW 48.17.160(3)

COMPLAINTS

Complaints are handled by the Life Service Unit. A complaint is defined as any written communication (inclusive of electronic mail) that primarily expresses a grievance. This includes both complaints filed with and submitted to the Company through a third party such as the Office of Insurance Commissioner and includes direct complaints received from customers.

The complaint handling procedures state that a complete response (which includes gathering facts, analyzing the circumstances, and suggesting possible remedies) must be sent to the complainant not later than 15 business days from receipt of the complaint.

The Company logs complaints in a Complaint Register.

During the exam period, the Company recorded two complaints, one directly from a customer and one from the Office of Insurance Commissioner (OIC). The examiners reviewed both complaints. The examiners found that the Company follows the procedures stated in the manual, and that it responds to the complainant within 15 business days.

One of the complaint files was an external replacement file that was not on the Company's Replacement Log. This is addressed in the Policy Replacement section on Page 16.

Findings

The following Complaint Standard passed without comment:

#	Complaint Standard	Reference
1	The Company responds to any inquiry from the OIC within 15 business days, and the response is in writing, unless otherwise indicated in the inquiry. The response to the OIC contains the substantial information requested by the OIC.	WAC 284-30-650, Technical Advisory T 98-4

UNDERWRITING AND POLICY ISSUE

Pemco's Life Services Unit is responsible for receiving applications, entering them on the administrative system and into the general Pemco system, underwriting applications, and issuing policies. This unit also performs all administrative functions except premium processing, and pays disability and death claims.

Underwriting and Policy Issue Process

When an application is received, the Account Specialist reviews the application for complete answers, and then enters the application information into the GENELCO computer system. The identifying information is also entered into a computer data base

that is shared by all Pemco affiliates. The file is forwarded to the Underwriter to make the decision to accept, modify or reject the applicant. Once a decision is made, the file is returned to the Account Specialist for issue of the policy. If premium is needed, a letter is sent to the policy owner stating the amount needed to pay the initial premium on the policy. If premium is not needed, the policy and all accompanying documents are sent directly to the policy owner.

If the coverage is issued other than as applied for in the original application, the underwriter notifies the applicant of the action taken by letter and prepares an amendment to be signed by the applicant when the policy is delivered. However, there is no follow up on outstanding issue requirements and if the required premium is received, the policy is placed in-force. The Company does not get a signed amendment which signifies the applicant's agreement with the changes. Four of the 50 underwriting files reviewed were issued without receipt of the amendments.

If the application is declined by the Company the underwriter sends a letter detailing the reason for the declination. Declination letters include instructions as to how to appeal the underwriter's decision.

If the application is withdrawn by the applicant, the underwriter sends a letter acknowledging the specific date of withdrawal and the return of any premium that has been collected.

The Company uses the Business Men's Assurance (BMA) underwriting manual which sets guidelines for additional information required to make a decision on the application. BMA is also Pemco's reinsurance company. The senior underwriter has an approval limit of \$750,000 face amount. This means that this underwriter can approve policies up to \$750,000 without having any other person review his/her work. The limit for the other underwriter is \$550,000. Between \$550,000 and \$750,000, the senior underwriter will co-sign the approval. Amounts over \$750,000 must be approved by the reinsurance company prior to issuing the policy.

Reinsurance retention limits are established by a contract with BMA. For term insurance, the Company retains 50% of each risk up to \$100,000 face amount, the balance being ceded to BMA under an automatic reinsurance contract. For whole life policies, the Company retains \$100,000 with the balance being ceded to BMA. All rated policies (term and whole life) are ceded facultatively to BMA.

Subsequent event: Underwriting authority levels were reviewed in July 2003 and revised based on proficiency and experience level. New review processes have been established to assist with internal controls. Claims responsibilities are being separated from the underwriting function.

During the review of the Underwriting and Policy Issue files the examiners found 34 files that were incomplete with documents missing from the files. These are addressed in the General Examination Findings on Page 8.

There was also one Application form in Underwriting and Policy Issue that had not been filed with the OIC. This is addressed in the Policy Form Filing section on Page 20.

During the review of the Underwriting and Policy Issue files the examiners found 18 replacement files that were not listed on the Company's Replacement Log. There were 2 internal replacements and 16 external replacements. These are addressed in the Policy Replacement section on Page 16.

Findings

The Company submitted a database of 2,029 applications received during the exam period. A random sample of 50 applications was selected for review using ACL software. The selection was based on NAIC Market Conduct Examiner Handbook guidelines.

The following Underwriting and Policy Issue Standards passed without comment:

#	Underwriting and Policy Issue Standards	Reference
1	The Company does not allow a person to procure a life insurance policy on another person unless the benefits are payable to the individual insured, his personal representative, or a person having an insurable interest at the time of issue.	RCW 48.18.030(1)
2	All policies use a written application completed by the applicant.	RCW 48.18.060
4	The policy specifies the name of the company, the parties of the contract, the subject of the contract, and the named risk.	RCW 48.18.140(2)
5	The premium stated in the policy includes all fees, charges, premiums or other considerations charged for the insurance.	RCW 48.18.180(1)
6	The policy contains the entire contract.	RCW 48.18.190
7	The Company does not use unfair discrimination between insureds having substantially like insuring, risk, and exposure factors, or expense factors.	RCW 48.18.480, RCW 48.30.300(1)
8	Correspondence concerning denial of an application must give the true and actual reason for denying insurance in clear and simple language that does not require an applicant or insured to do further research to understand that reason.	RCW 48.30.320, WAC 284-30-570
9	The Company has standards to ensure that juvenile life applications are appropriate and maintains a log of juvenile life denied applications. <i>Effective 08-01-01</i>	RCW 48.23.345
11	The Company furnishes the specified Buyer's Guide and Policy Summary to the applicant as required.	WAC 284-23-230(2), and (3), and WAC 284-23-235(1)

#	Underwriting and Policy Issue Standards	Reference
12	The Company maintains a complete file with copies of the Buyer's Guides and Policy Summaries for 3 years.	WAC 284-23-240(1)
14	The Company makes an independent evaluation on each application.	WAC 284-30-574

The following Underwriting and Policy Issue Standard passed with comment:

#	Underwriting and Policy Issue Standard	Reference
13	A receipt is given to the insured by the agent, solicitor or insurer's representative for money collected with the application.	WAC 284-30-550(1)

Underwriting and Policy Issue Standard #13:

Two (2) of the 50 files reviewed had the temporary insurance agreement receipt still intact even though the underwriter worksheet indicated that money had been received with the application. These two files are 4% of the total sample.

Subsequent Event: The Company has notified all agents of the proper use of the receipt and this information is now emphasized in agency training.

The following Underwriting and Policy Issue Standards failed:

#	Underwriting and Policy Issue Standards	Reference
3	No alterations are made to the application except by the applicant, or with the consent of the applicant.	RCW 48.18.070(1)
10	A copy of the illustration used in the sale of the life insurance policy, or acknowledgement of no illustration used in the sale, or a signed copy of a "revised illustration" sent to the applicant is retained by the Company.	RCW 48.23A.060

Underwriting and Policy Issue Standard #3:

There were nine (9) of the 50 files reviewed that had alterations to applications that were not initialed by the applicant. See Appendix 2.

Underwriting and Policy Issue Standard #10:

Four (4) of the 50 files were missing signed copies of the illustrations used to sell the product, as required by RCW 48.23A.060(1)(a).

In 30 of the 50 files reviewed, revised illustrations were not labeled as "revised illustration." The revised illustrations were not signed and dated by the applicant or policy owner and producer or other authorized representative of the Company as required by RCW 48.23A.060(1)(b).

In 23 of the 50 files, the applicant did not sign the illustration that was received with the application forms. This is in violation of RCW 48.23A.060(4).

Subsequent Event: The Company has discontinued use of the product requiring the illustration as of May 21, 2004. The procedures for illustrations have been revised to comply with the regulations and will be adhered to for any future product that may require an illustration.

POLICY REPLACEMENTS

Pemco's Life Services Unit is responsible for processing policy replacements.

Policy Replacement Procedures

The Company's Agent Life Manual and Home Office Procedure Bulletin provide clear guidance regarding the replacement procedures.

A copy of the Company's replacement form (PLIC-5A) in use during the examination was also provided for review. The form is correct and complies with WAC 284-23-485.

Policy Replacement File Review

The Company provided a database of policy replacements during the examination period. There were 169 replacements listed on the database. There were 16 entries in the database that were not reviewed as they were deemed to result from transactions that are exempt from replacement regulations.

There were 153 replacement files reviewed: 32 external replacements, 114 internal replacement and seven (7) files with both internal and external replacements.

While reviewing the Policy Replacement files the examiners found that there were problems with incomplete files. These findings are addressed in the General Examination Findings on Page 8.

In reviewing other files during the examination process, the examiners found 25 replacements that were not on the replacement register.

- Eighteen files in Underwriting and Policy Issue
- Six (6) files in In-force Policy Administration
- One (1) file in the OIC Complaints

Findings

Policy Replacement Standards # 8 and # 9 were not applicable to this examination. The Company is not a direct response insurer.

The following Policy Replacement Standards passed without comment:

#	Policy Replacement Standards	Reference
1	The Company informs its field representatives or personnel responsible for compliance about the requirements of the replacement regulations.	WAC 284-23-450(1)
6	The Company maintains copies of the notice of replacement, policy summaries, and a replacement register for at least three (3) years or until examination by its state of domicile, whichever is later.	WAC 284-23-455(3)
10	The specified replacement form is used in all transactions proposing replacement.	WAC 284-23-485

The following Policy Replacement Standard passed with comment:

#	Policy Replacement Standard	Reference
4	The Company requires that the agent include with the application a listing of all existing insurance to be replaced and a copy of the replacement notice provided to the applicant.	WAC 284-23-455(2)(a)

Replacement Standard #4:

There were eight (8) of 39 files reviewed where the replacement forms were incomplete or missing from the file.

The following Policy Replacement Standards failed:

#	Policy Replacement Standards	Reference
2	All life insurance applications must include a statement signed by the applicant regarding the replacement of an existing policy.	WAC 284-23-450(2)
3	The Company requires a statement signed by the agent indicating whether or not replacement is involved.	WAC 284-23-455(1)
5	The Company sends the required notice of replacement and policy summary to the existing insurer within three (3) working days of receipt of the application.	WAC 284-23-455(2)(b)
7	The Company notifies the applicant in its policy or by separate written notice that the applicant has the right to an unconditional refund of all premiums paid if exercised within 20 days from the date of delivery of the policy.	WAC 284-23-455(4)

Policy Replacement Standard #2:

There were eight (8) of 153 files reviewed where the statement regarding the replacement of an existing policy was not answered by the applicant on the application. See Appendix 3.

Policy Replacement Standard #3:

There were 89 of 153 files reviewed where the replacement statement to be signed by the agent was not answered on the application. See Appendix 4.

Policy Replacement Standard #5:

There were 24 of 39 files reviewed where the replacement notice to the existing carrier was not sent, and nine (9) files where it was not sent within the three (3) day requirement. See Appendix 5.

Policy Replacement Standard #7:

None of the 39 files reviewed contained the notification to the applicant of the right to an unconditional refund of all premiums paid if exercised within 20 days of delivery of the policy. When questioned, the Company stated that it was not aware of this requirement.

Subsequent Event: In November 2002 the Company revised its replacement procedures and trained all processing staff and the agency force on the required notices and proper handling for both internal and external replacements. Starting in December 2002, the Company sends an instructional memorandum electronically every year to all of its agents licensed to sell life insurance.

INFORCE POLICY ADMINISTRATION

Inforce Policies, Reinstatements, Terminations, and Policy Changes for Addresses, Beneficiaries, and Face Amount/Rate Changes were reviewed by the examiners.

Inforce Policy Review

From a total of 5,436 Inforce policies 60 files were randomly selected for review using ACL.

One file contained only a copy of the application dated 10-01-75. There were no other records found for this policy in the Company's microfilm records. This is addressed in the General Examination Findings section, Page 8.

There were 12 files that involved replacements, two internal and 10 external. Four (4) external replacements and two (2) internal replacements were not on the Company's Replacement Register. These six (6) files are addressed in the Policy Replacement section, Page 17.

Policy Address Changes

From a total of 4,369 policy address changes 60 were randomly selected for review using ACL. There were two (2) files that the Company was unable to locate. This is addressed in the General Examination report section on page 8.

Policy Beneficiary Changes

From a total of 519 policy beneficiary changes, 60 were randomly selected for review using ACL. There were two (2) files that the Company was unable to locate. This is addressed in the General Examination report section on page 8.

Policy Face Amount or Rate Changes

From a total of 387 policy face amount or rate changes a sample of 60 files was randomly selected for review using ACL. Two (2) files were incomplete with nothing but one page from the Illustration and a Reinsurance page. This is addressed in the General Examination report section on page 8.

Policy Reinstatements and Terminations

From a total of 1,362 policy reinstatements and terminations a sample of 60 files was randomly selected for review using ACL. The sample consisted of 11 reinstatement files and 49 termination files. There were two (2) termination files that were missing and could not be located by the Company. There were also two (2) files that were incomplete with no information regarding the termination process. This is addressed in the General Examination report section on page 8.

Findings

Policy Administration Standard #1 is not applicable to this examination. The Company never issued participating policies or paid a dividend.

The following Policy Administration Standards passed without comment:

#	Policy Administration Standards	Reference
2	The Company processes all types of policy administration procedures in accordance with the required policy provisions.	RCW 48.23.030, RCW 48.23.070(1), RCW 48.23.080(1), RCW 48.23.085(6), RCW 48.23.120
3	The Company uses policy illustrations at issue and provides the insured with an annual report on the status of the policy in accordance with the regulations.	RCW 48.23A.070

POLICY FORM FILING

Findings

The following Policy Form Filing Standard failed:

#	Policy Form Filing Standard	Reference
1	All policy and application forms are filed with and approved by the Office of Insurance Commissioner prior to use.	RCW 48.18.100(1)

Policy Form Filing Standard #1:

While reviewing the Underwriting and Policy Issue section, and the Policy Administration section, the examiners determined that there were 28 different policy, application and endorsement forms used by the Company. The Application for Life Insurance Part I (Form PLIC 233 052000 11419.01) was approved by the OIC on 02-21-01. It appears that the Company made changes to the form and did not file the changes with the OIC as required.

Subsequent event: The Company has inventoried all forms and created safeguards within the forms administration area to ensure compliance with the filing requirements.

CLAIMS

Claims Procedures

The Company provided the examiners with a copy of its Claims Handling Procedures including copies of the forms used for claims processing. The information regarding death claims, waiver of premium disability claims, and credit disability is clear and complete.

The Company has no written claims procedures regarding the handling of simultaneous death or accelerated benefit claims.

Claims Handling Process

Individual life insurance claims for death or for disability waiver of premiums are handled by the Life Service Unit. Credit Life and Credit Disability claims are handled by the Life Service Unit as well.

Upon notification of a claim the Life Service Unit verifies the identity of the person who called and checks the status of the policy on the GENELCO System. The Life Service Unit completes the Claims Notification Form and orders the policy records.

For death claims the Life Service Unit sends a letter to the Claimant with the Claimant's Statement for Life Insurance Proceeds and a request for a copy of the Death Certificate.

For disability waiver of premiums claims a Disability Claim Statement is sent to the Claimant to be completed, along with a request for a medical statement from the Claimant's physician.

When the requested forms are returned, they are checked for accuracy. The GENELCO System is updated with the cause and date of death, or the cause and date of disability. The claim is then reviewed by the supervisor for final approval. If approved, a check voucher is prepared for payment and sent to accounting. When the check is received from accounting, the Life Service Unit forwards it to the claimant by Certified Mail with IRS Form 712.

If the claim is denied, the management team and the medical director review the claim. If the denial is upheld, a denial letter is sent to the Claimant with the specific reasons for denial.

The GENELCO System is updated and the claims file is microfilmed and attached to the policy file.

Group death claims are handled by the School Employees Credit Union. The only difference in procedure is that a claim form is not sent when the Death Certificate is requested.

Subsequent event: New review processes were established July 2003 to assist with internal controls. Claims responsibilities are being separated from the underwriting function.

Death Claims Review

There were 71 death claims opened during the examination period. This consisted of 37 Individual Life insurance claims, 33 Group Life Insurance claims, and one Credit Life Insurance claim.

A total of 31 death claims were reviewed: 15 individual life claims, 15 group life claims, and 1 credit life claim.

All of the death claims were paid appropriately, with the correct interest included. There were three (3) of 31 death claims that were paid past 90 days from the date of death because the required forms were not sent to the company promptly by the claimants. The additional interest from the 91st day to the payment date was included in the payment. There were no contestable claims or denied claims during the examination period.

Disability Waiver of Premium Claims Review

There were nine (9) Disability Waiver of Premium claims. All nine (9) were reviewed. There were two (2) files that were incomplete. One (1) file had no information on the notice date, the date forms sent, or the date forms received. The other file had no information on the notice date, or the date forms received. These incomplete files are addressed in General Examination Findings on Page 8.

Credit Disability Claims Review

There was only one (1) Credit Disability claim which was reviewed. It passed all of the standards without comment.

Findings

Claims Standards #1, #3 and #4 were not applicable to this examination. There were no simultaneous death claims or accelerated benefit claims during the examination period.

The following Claims Standards passed without comment:

#	Claims Standard	Reference
2	Interest at no less than 8% of the payable death benefit accrues from the date of death up to the payment date. Benefits that have not been paid 90 days after receipt of the proof of death accrue an additional 3% interest, commencing on the 91 st day, up to the payment date.	RCW 48.23.300
5	The Company pays claims fairly and without deception as defined by the Unfair Claims Settlement Practices act.	WAC 284-30-330(1), (2),(3),(4),(5),(9),(11), (13),(15) and (19)
7	The Company does not misrepresent any policy provisions at the time of the claim.	WAC 284-30-350(1) and (4)
9	The Company responds to inquiries from the OIC regarding a claim within fifteen working days.	WAC 284-30-360(2)
10	The Company responds to claimant inquiries within ten working days, or 15 working days with respect to inquiries arising under group insurance contracts.	WAC 284-30-360(3)
14	If a claim is denied for a reason other than a specific policy provision, condition, or exclusion, and not made in writing, the Company includes an appropriate notation in the claim file.	WAC 284-30-380(2)
15	If the Company needs more time to determine if the claim should be accepted or denied, it notifies the claimant within fifteen working days of receipt of proof of death. If the investigation remains incomplete, the Company sends a letter with the reason for the delay within 45 days of the initial notice and every 30 days thereafter.	WAC 284-30-380(3)

The following Claims Standards passed with comment:

#	Claims Standard	Reference
6	The Company maintains complete claim files with all notes and papers in such detail that the claims history can be reconstructed.	WAC 284-30-340

#	Claims Standard	Reference
8	The Company acknowledges receipt of notification of a claim under an individual policy within ten working days, or within 15 working days under a group policy.	WAC 284-30-360(1)
11	The Company provides necessary claim forms, instructions, and reasonable assistance within ten days of receipt of notice of claim.	WAC 284-30-360(4)
12	The Company completes investigation of the claim within thirty days of notice of claim, unless such investigation cannot reasonably be completed within such time.	WAC 284-30-370
13	The Company advises of the acceptance or denial of a claim within fifteen working days of receipt of properly executed proof of loss. If denied for a specific policy provision, condition, or exclusion it must be given to the claimant in writing.	WAC 284-30-380(1)

Claims Standards #6, 8, 11, 12 and 13:

41 claims were reviewed by the examiners. Two (2) of the Waiver of Premium files were incomplete, and as such the examiners were not able to determine if any of the steps required by Standards #8, 11, 12 and 13 were followed.

INSTRUCTIONS AND RECOMMENDATIONS

	INSTRUCTIONS	Page #
1	The Company is instructed to take steps including a quality audit, to ensure that paperwork is filmed / imaged under the correct policy number, that two-sided forms are filmed on both sides, that copies are readable once filmed and that pages longer than 8 ½ x 11 are filmed completely.	8, 9
2	The Company is instructed to cease distribution of all advertising, materials found to be in violation of RCW 48.30.040, WAC 284-23-040(1) and (3), RCW 48.30.050 and WAC 284-23-060(1) until these materials have been revised.	11, 12
3	The Company is instructed to maintain a complete file of all advertising materials for a period of 4 years or until the next examination in accordance with WAC 284-23-090.	11, 12
4	The Company is instructed to revise the life insurance illustrations to include statements explaining non-guaranteed elements and the years in which premiums are scheduled to change. The Company is further instructed to retain a signed copy of the illustration for 3 years and ensure that any revised illustrations given to the insured are identified as "revised", pursuant to RCW 48.23A.040(1) and .060.	11, 12, 16, 17
5	The Company is instructed to require the applicant's signature any time the original application has been altered materially. RCW 48.18.070(1)	16
6	The Company is instructed to comply with all provisions of the Washington Replacement Regulation, WAC 284-23-400 through 485, specifically the following items: WAC 284-23-450(2), WAC 284-23-455(1),(2)(b) and (4).	18, 19
7	The Company is instructed to file and obtain approval from the OIC for all policy, application, and endorsement forms prior to use. RCW 48.18.100(1)	21

RECOMMENDATIONS		
1	<p>The Life Services Unit consists of a small number of employees. Because of this, the employees are given a broad range of duties. For example, the underwriters have authority to issue policies up to \$500,000 face amount without review by another employee, and they are responsible for approving death and disability claims. In addition, they perform in-force policy transactions such as beneficiary changes, address changes and policy loans. The Company has not set up internal controls to monitor these transactions.</p> <p>It is recommended that the Company work with its internal audit staff to define the roles of each Life Services Unit employee and to set in place a system of checks and balances to ensure that each person's span of control is appropriate to their position.</p>	13,19,21
2	It is recommended that the Company identify the source of all statistics used in advertising materials. WAC 284-23-050(12)	11
3	The receipt attached to the application acknowledges that the Company has received premium from the Applicant. Because this transaction is considered to be a receipt for the start of temporary insurance prior to final underwriting decisions, it is recommended that the Company instruct agents to give this receipt to the applicant when taking money. WAC 284-23-550(1)	16
4	There were several areas concerning replacement processing where the Company appears to be lax in requiring agents to follow the stated procedures. It is recommended that the Company send out updated instructions to agents in the form of a current bulletin. WAC 284-23-450(1)	18
5	It is recommended that the Company revise its claim procedures to include steps for the processing of simultaneous death, and accelerated death benefit claims.	21
6	It appears that the Company does not consistently follow the Unfair Claims Settlement Practices regulation (WAC 284-30-300 to WAC 284-30-380). It is recommended that the Company review these regulations and take steps to ensure that they are followed at all times. It is further recommended that the Company institute a quality audit program to ensure compliance with these regulations.	24
7	It is recommended that the Company advise the claimant in writing of the acceptance or denial of a claim within fifteen working days of receipt of a properly executed proof of loss. The written denial must include the specific reason for the denial. WAC 284-30-380(1)	24

SUMMARY OF STANDARDS

Company Operations and Management:

#	STANDARD	PAGE	PASS	FAIL
1	The Company is issued a certificate of authority by the Office of Insurance Commissioner prior to acting as a life insurance carrier in the State of Washington. Reference: RCW 48.05.030(1)	7	X	
2	Each domestic insurer holds an annual meeting of shareholders or members to receive reports and elect officers. Reference: RCW 48.07.040	7	N/A	
3	No less than three-fourth of the directors are United States or Canadian citizens, and a majority of mutual insurer directors are residents of this state. Reference: RCW 48.07.050	7	X	
4	All domestic insurers report to the OIC any amendments to the Articles of Incorporation. Reference: RCW 48.07.070(2)	7	X	

General Examination Findings:

#	General Examination Findings Standards	Page	Pass	Fail
1	The Company does business in good faith, and practices honesty and equity in all transactions. Reference: RCW 48.01.030	8	X	
2	The Company allows the examiners access to all records, documents and files, and facilitates the examination. Reference: RCW 48.03.030(1)	8	X	
3	The Company does business in its own legal name. Reference: RCW 48.05.190(1), Bulletin 78-7	8	X	
4	The Company maintains full and adequate accounts and records of its assets, obligations, transactions and affairs. Reference: RCW 48.05.280	8		X
5	The Company does not discourage insureds from contacting the OIC and does not discriminate against those insureds that do contact the OIC. Reference: WAC 284-30-572(2)	8	X	

#	Advertising Standards	Page	Pass	Fail
1	The Company does not use any false, deceptive or misleading information in the conduct of its business. Reference: RCW 48.30.040, WAC 284-23-040(1) and (3)	11		X
2	All advertising materials must show the full name and location of the Company. Reference: RCW 48.30.050, WAC 284-23-060(1)	11		X

#	Advertising Standards	Page	Pass	Fail
3	No advertisement shall use any combination of words, symbols or physical materials which by content, phraseology, shape, color or other characteristics are so similar to materials used by a governmental program or agency that tends to mislead prospective insureds into believing that the solicitation is in some manner connected with such governmental program or agency. Reference: WAC 284-23-060(2)	9	X	
4	Any advertising of the Company's financial condition must substantially correspond with the last annual statement filed with the OIC. Reference: RCW 48.30.070	10	X	
5	The Company does not make, publish, disseminate, circulate, or place before the public in any newspaper, magazine, or other publication, or in the form of a notice, circular, pamphlet, letter, or poster, or over any radio station or television station any advertisement, announcement, or statement which uses the existence of the Washington Insurance Guaranty Association or the Washington Life and Disability Insurance Guaranty Association for the purpose of sales, solicitation, or inducement to purchase any form of insurance covered by the Washington Insurance Guaranty Association Act or the Washington Life and Disability Insurance Guaranty Association Act. Reference: RCW 48.30.075	10	X	
6	No advertising contains any false or unfair statements criticizing or implying criticism of another insurer. Reference: RCW 48.30.080, WAC 284-23-050(15)	10	X	
7	The Company does not make, issue or circulate, or cause to be made, issued or circulated any misrepresentation of the terms of any policy, benefit or advantage of the policy, nor does the Company use any name or title of any policy or class of policies misrepresenting the nature of the policy. Reference: RCW 48.30.090	10	X	
8	The Company establishes and maintains a system of control over the content, form and methods of dissemination of all advertisements of its policies. Reference: WAC 284-23-030(2)	10	X	
9	All advertisements meet the disclosure requirements. Reference: WAC 284-23-050	11	X	
10 A	Any advertisement that can reasonably expect to be seen outside of the Company's stated jurisdiction must not imply that the Company is licensed outside that jurisdiction. Reference: WAC 284-23-070(1)	10	X	
10 B	A Company may state in an advertisement that it is licensed in the state where the advertisement appears but this fact may not be exaggerated. Reference: WAC 284-23-070(2)	10	X	

#	Advertising Standards	Page	Pass	Fail
10 C	An advertisement may not imply that an insurer is, in any way, recommended or endorsed by any governmental agency unless the entity has authorized the endorsement or recommendation in writing. Reference: WAC 284-23-070(3)	10	X	
11	Any statements by any commercial rating system about the insurer contained in an advertisement are accompanied with a definition of the scope and extent of the recommendation. Reference: WAC 284-23-080	10	X	
12	The Company maintains a complete advertising file for the longer of four years or the next filing of the next regular report of examination of the insurer, whichever is later. Reference: WAC 284-23-090	11		X
13	All life insurance sales illustrations must satisfy the applicable requirements and contain the information described in the regulations. Reference: Chapter 48.23A RCW	11		X

#	Agent Activity Standards	Page	Pass	Fail
1	The Company ensures that agents and brokers are licensed for the appropriate line of business with the State of Washington prior to allowing them to solicit business or represent the Company in any way. Reference: RCW 48.17.060(1) and (2)	12	X	
2	The Company ensures that agents are appointed to represent the Company prior to allowing them to solicit business on behalf of the Company. Reference: RCW 48.17.160(1)	13	X	
3	The Company provides written notice to the agent and the OIC when an agent's appointment is revoked. Reference: RCW 48.17.160(3)	13	X	
4	The Company ensures that agents and brokers selling variable policies or contracts are licensed as security salesmen or securities brokers under a license issued by the director of financial institutions. Reference: RCW 48.18A.060	12	N/A	

	Complaints Standards	Page	Pass	Fail
1	The Company responds to any inquiry from the OIC within 15 business days, and the response is in writing, unless otherwise indicated in the inquiry. The response to the OIC contains the substantial information requested by the OIC. Reference: WAC 284-30-650, Technical Advisory T 98-4	13	X	

#	Underwriting and Policy Issue Standards	Page	Pass	Fail
1	The Company does not allow a person to procure a life insurance policy on another person unless the benefits are payable to the individual insured, his personal representative, or a person having an insurable interest at the time of issue. Reference: RCW 48.18.030(1)	15	X	
2	All policies use a written application completed by the applicant. Reference: RCW 48.18.060	15	X	
3	No alterations are made to the application except by the applicant, or with the consent of the applicant. Reference: RCW 48.18.070(1)	16		X
4	The policy specifies the name of the company, the parties of the contract, the subject of the contract, and the named risk. Reference: RCW 48.18.140(2)	15	X	
5	The premium stated in the policy includes all fees, charges, premiums or other considerations charged for the insurance. Reference: RCW 48.18.180(1)	15	X	
6	The policy contains the entire contract. Reference: RCW 48.18.190	15	X	
7	The Company does not use unfair discrimination between insureds having substantially like insuring, risk, and exposure factors, or expense factors. Reference: RCW 48.18.480, RCW 48.30.300(1)	15	X	
8	Correspondence concerning denial of an application must give the true and actual reason for denying insurance in clear and simple language that does not require an applicant or insured to do further research to understand that reason. Reference: RCW 48.30.320, WAC 284-30-570	16	X	
9	The Company has standards to ensure that juvenile life applications are appropriate and maintains a log of juvenile life denied applications. <i>Effective 08-01-01</i> Reference: RCW 48.23.345	16	X	
10	A copy of the illustration used in the sale of the life insurance policy, or acknowledgement of no illustration used in the sale, or a signed copy of a "revised illustration" sent to the applicant is retained by the Company. Reference: RCW 48.23A.060	16		X
11	The Company furnishes the specified Buyer's Guide and Policy Summary to the applicant as required. Reference: WAC 284-23-230(2) and (3), and WAC 284-23-235(1)	16	X	
12	The Company maintains a complete file with copies of the Buyer's Guides and Policy Summaries for 3 years. Reference: WAC 284-23-240(1)	16	X	
13	A receipt is given to the insured by the agent, solicitor, or insurer's representative for money collected with the application. Reference: WAC 284-30-550(1)	16	X	

#	Underwriting and Policy Issue Standards	Page	Pass	Fail
14	The Company makes an independent evaluation on each application. Reference: WAC 284-30-574	16	X	

#	Policy Replacement Standards	Page	Pass	Fail
1	The Company informs its field representatives or personnel responsible for compliance about the requirements of the replacement regulations. Reference: WAC 284-23-450(1)	18	X	
2	All life insurance applications must include a statement signed by the applicant regarding replacement of an existing policy. Reference: WAC 284-23-450(2)	18		X
3	The Company requires a statement signed by the agent indicating whether or not replacement is involved. Reference: WAC 284-23-455(1)	19		X
4	The Company requires that the agent include with the application a listing of all existing insurance to be replaced and a copy of the replacement notice provided to the applicant. Reference: WAC 284-23-455(2)(a)	18	X	
5	The Company sends the required notice of replacement and policy summary to the existing insurer within three (3) working days of receipt of the application. Reference: WAC 284-23-455(2)(b)	19		X
6	The Company maintains copies of the notice of replacement, policy summaries, and a replacement register for at least three (3) years or until examination by its state of domicile, whichever is later. Reference: WAC 284-23-455(3)	18	X	
7	The Company notifies the applicant in its policy or by separate written notice that applicant has the right to an unconditional refund of all premiums paid if exercised within 20 days from the date of delivery of the policy. Reference: WAC 284-23-455(4)	19		X
8	If the sale is generated by direct response and replacement was not proposed by the insurer, the Company sends a replacement statement to the applicant with the policy. Reference: WAC 284-23-460(1)	18	N/A	
9	If the sale is generated by direct response and the insurer proposes replacement, the Company provides a replacement notice, requests a listing of all existing policies, and informs any existing carriers of proposed replacement. Reference: WAC 284-23-460(2)	18	N/A	
10	The specified replacement form is used in all transactions proposing replacement. Reference: WAC 284-23-485	18	X	

#	Policy Administration Standards	Page	Pass	Fail
1	The Company only pays dividends, unused premium refunds, or savings on account of any policy to the policy owner as shown in their records, or any party to whom the insured has assigned these rights. Reference: RCW 48.18.340(1) and (2)	20	N/A	
2	The Company processes all types of policy administration procedures in accordance with the required policy provisions. Reference: RCW 48.23.030, RCW 48.23.070(1), RCW 48.23.080(1), RCW 48.23.085(6), RCW 48.23.120	21	X	
3	The Company uses policy illustrations at issue and provides the insured with an annual report on the status of the policy in accordance with the regulations. Reference: RCW 48.23A.070	21	X	

#	Policy Form Filing Standards	Page	Pass	Fail
1	All policy and application forms are filed with and approved by the Office of Insurance Commissioner prior to use. Reference: RCW 48.18.100(1)	21		X

#	Claims Standards	Page	Pass	Fail
1	The Company complies with the required provision regarding simultaneous deaths of the insured and beneficiary as required by the statute. Reference: RCW 48.18.390	23		N/A
2	Interest at no less than 8% of the payable death benefit accrues from the date of death up to the payment date. Benefits that have not been paid 90 days after receipt of the proof of death accrue an additional 3% interest, commencing on the 91 st day, up to the payment date. Reference: RCW 48.23.300	23	X	
3	When the Company receives a request for an accelerated benefit claim it sends the required disclosure statement within 20 days of the request. Reference: WAC 284-23-650(7)	23		N/A
4	The Company does not use unfair discrimination or apply conditions on accelerated benefits except as specified in the policy or rider. Reference: WAC 284-23-680	23		N/A
5	The Company pays claims fairly and without deception as defined by the Unfair Claims Settlement Practices act. Reference: WAC 284-30-330(1),(2),(3),(4),(5),(9),(11),(13), (15) and (19)	23	X	
6	The Company maintains complete claim files with all notes and papers in such detail that the claims history can be reconstructed. Reference: WAC 284-30-340	24	X	
7	The Company does not misrepresent any policy provisions at the time of the claim. Reference: WAC 284-30-350(1) and (4)	23	X	

#	Claims Standards	Page	Pass	Fail
8	The Company acknowledges receipt of notification of a claim under an individual policy within ten working days, or within Reference: WAC 284-	24	X	

#	Claims Standards	Page	Pass	Fail
8	The Company acknowledges receipt of notification of a claim under an individual policy within ten working days, or within 15 working days under a group policy. Reference: WAC 284-30-360(1)	24	X	
9	The Company responds to inquiries from the OIC regarding a claim within fifteen working days. Reference: WAC 284-30-360(2)	23	X	
10	The Company responds to claimant inquiries within ten working days, or 15 working days with respect to inquiries arising under group insurance contracts. Reference: WAC 284-30-360(3)	23	X	
11	The Company provides necessary claim forms, instructions, and reasonable assistance within ten days of receipt of notice of claim. Reference: WAC 284-30-360(4)	24	X	
12	The Company completes investigation of the claim within thirty days of notice of claim, unless such investigation cannot reasonably be completed within such time. Reference: WAC 284-30-370	24	X	
13	The Company advises of the acceptance or denial of a claim within fifteen working days of receipt of properly executed proof of loss. If denied for a specific policy provision, condition, or exclusion it must be given to the claimant in writing. Reference: WAC 284-30-380(1)	24	X	
14	If a claim is denied for a reason other than a specific policy provision, condition, or exclusion, and not made in writing, the Company includes an appropriate notation in the claim file. Reference: WAC 284-30-380(2)	24	X	
15	If the Company needs more time to determine if the claim should be accepted or denied, it notifies the claimant within fifteen working days of receipt of proof of death. If the investigation remains incomplete, the Company sends a letter with the reason for the delay within 45 days of the initial notice and every 30 days thereafter. Reference: WAC 284-30-380(3)	24	X	

APPENDIX 1

Advertising Standard #12:

The following items are missing from the advertising file provided to the examiners.

OIC #	Company Form # and Print Date	Item Description
11	No form # or print date	Form letter "...Here's the life insurance quote you requested...."
12	No form # or print date	Form questionnaire "...The following questions will allow me to be as accurate as...."
13	No form # or print date	Form letter "As a business owner, you have a million...." with questionnaire.
14	No form # or print date	Form letter "...To ensure an accurate quote...." with questionnaire.
16	No form # or print date	Form letter "...Here are the life insurance rates you requested...."
17	No form # or print date	Form letter "My name is **** and I am a Life Sales Specialist...."
18	No form # or print date	Form letter "As the owner of this policy, you have designated a minor...."
19	No form # or print date	Form letter "...Enclosed is your personalized premium illustration...."
20	No form # or print date	Form letter "...I'd like to ask you to share my services with those people...."

APPENDIX 2

Underwriting and Policy Issue Standard #3:

No alterations are made to the application except by the applicant.

The following policy files contained alterations to the original application that was not acknowledged by the applicant.

OIC #	Policy #
16	ST0100482
18	ST0100546
26	ST0100829
30	ST0100997
32	ST0101026
38	ST0200306
41	ST0200496
44	ST0200532
47	ST0200573

APPENDIX 3

Policy Replacement Standard #2:

All life insurance applications must include a statement signed by the applicant regarding replacement of an existing policy. Reference WAC 284-23-450(2)(b).

The following policy files were missing the applicant's statement.

OIC #	Policy #
9	ST0100503
13	ST0100731
29	ST0100370
91	ST0100309
114	ST0100001
150	ST0100470
155	ST0100083
156	ST0100347

APPENDIX 4

Policy Replacement Standard #3:

The Company requires a statement signed by the agent indicating whether or not replacement is involved. Reference WAC 284-23-455(1).

The following policy files were missing the agent's signed statement.

Policy #	Policy #	Policy #
ST0100127	ST0100537	ST0100245
ST0100273	ST0100533	ST0100034
ST0100325	ST0100699	ST0100017
ST0100412	ST0100341	ST0100548
ST0100324	ST0100215	ST0100909
ST0100517	ST0100085	ST0100249
ST0100502	ST0100231	ST0100297
ST0100503	ST0100169	ST0100668
ST0100694	ST0100016	ST0100663
ST0100731	ST0100549	ST0100682
ST0100576	ST0100295	ST0100395
ST0100369	ST0100338	ST0100547
ST0100260	ST0100224	ST0100394
ST0100942	ST0100536	ST0100019
ST0100128	ST0100550	ST0100171
ST0100264	ST0100560	ST0100123
ST0100491	ST0100310	ST0100217
ST0100713	ST0100309	ST0100452
ST0100218	ST0100591	ST0100470
ST0100285	ST0100009	ST0100048
ST0100263	ST0100080	ST0100083
ST0100284	ST0100001	ST0100347
ST0100105	ST0100677	ST0100903
ST0100288	ST0100564	ST0100097
ST0100370	ST0100510	ST0100077
ST0100259	ST0100055	ST0100353
ST0100074	ST0100050	ST0100952
ST0100073	ST0100107	ST0100904
ST0100330	ST0100687	ST0100248
ST0100283	ST0100026	

APPENDIX 5

Policy Replacement Standard #5:

The Company sends the required notice of replacement and policy summary to the existing insurer within 3 days. Reference WAC 284-23-455(2)(b).

OIC #	Policy #	Comments
1	ST0100127	No replacement letter in file
6	ST0100517	No replacement letter in file
7	ST0100502	No replacement letter in file
9	ST0100503	No replacement letter in file
14	ST0100576	Replacement notice sent later than 3 days
18	ST0100128	No replacement letter in file
36	ST0100330	No replacement letter in file
46	ST0100672	Replacement notice sent later than 3 days
50	ST0000943	Replacement notice sent later than 3 days
51	ST0200239	Replacement notice sent later than 3 days
57	ST0200090	No replacement letter in file
69	ST0200089	No replacement letter in file
81	ST0100550	No replacement letter in file
82	ST0100560	No replacement letter in file
83	ST0100590	No replacement letter in file
91	ST0100309	No replacement letter in file
101	ST0100591	No replacement letter in file
105	ST0100577	No replacement letter in file
111	ST0100080	Replacement notice sent later than 3 days
115	ST0100677	No replacement letter in file
116	ST0100564	No replacement letter in file
122	ST0100687	No replacement letter in file
129	ST0100548	No replacement letter in file
132	ST0100909	No replacement letter in file
137	ST0100663	No replacement letter in file
138	ST0100682	Replacement notice sent later than 3 days
141	ST0100547	No replacement letter in file
148	ST0100452	Replacement notice sent later than 3 days
150	ST0100470	No replacement letter in file
153	ST0100096	No replacement letter in file
162	ST0100142	Replacement notice sent later than 3 days
163	ST0100143	Replacement notice sent later than 3 days
164	ST0100097	No replacement letter in file



PEMCO
Life Insurance

325 Eastlake Avenue East
PO Box 778
Seattle, WA 98111-0778
May 12, 2004

RECEIVED
MAY 18 2004

INSURANCE COMMISSIONER
COMPANY SUPERVISION

James T. Odiome, CPA, JD
Deputy Insurance Commissioner
Office of the Insurance Commissioner
P.O. Box 40255
Olympia, WA 98504-0255

RE: Response to the Market Conduct Examination of PEMCO Life Insurance Company
Examination Period: January 1, 2001-September 30, 2002

Deputy Commissioner Odiome:

This letter is in response to the referenced report of examination awaiting formal adoption. Thank you for the opportunity to respond to the findings, to share subsequent events occurring after the period of examination, and to demonstrate our resolve to satisfactorily perform to the examination standards.

This was the first Market Conduct Examination of PEMCO Life Insurance Company and the process has beneficially provided us with the opportunity to make additional improvements. A few years ago we embarked upon a strategy to transform PEMCO Life by basing our business model on operational excellence. We were in the midst of many process changes during the course of the examination and since the examination have implemented several other improvements. In addition, we have strengthened our staffing experience by adding a Compliance Manager and hiring a new Chief Underwriter.

We offer the following comments regarding the instructions:

1. The Company is instructed to take steps including a quality audit, to ensure that paperwork is filmed/imaged under the correct policy number, that two-sided forms are filmed on both sides, that copies are readable once filmed, and that pages longer than 8 1/2 x 11 are filmed completely.

Comment: We have met with our Records staff to discuss errors in filming. We provided additional training in 2003 on preparing files for filming and training on the handling of life insurance forms for record retention. We also recently conducted a records retention and inventory study in 2004 to improve our procedures using industry best practices as a standard. We have discontinued the use of legal size forms (due to filming and handling challenges). In addition, we are formalizing a quality control process to ensure compliance. The process will be detailed in our Compliance Plan.

2. The Company is instructed to cease distribution of all advertising, materials, found to be in violation of RCW 48.30.040, WAC 284-23-040(1) and (3), RCW 48.30.050 and WAC 284-23-060(1) until these materials have been revised.

Comment: The two brochures and postcard noted on the examination have since been revised for compliance or discontinued in December 2002. Any new advertising or sales material goes through an extensive check prior to printing to ensure compliance. This process will be detailed in our Compliance Plan.

3. The Company is instructed to maintain a complete file of all advertising materials for a period of 4 years or until the next examination in accordance with WAC 284-23-090.

Comment: The advertising file has been expanded to include all form letters utilized by our sales channels for prospecting new business. The Compliance Plan will define and provide additional detail describing our complete advertising file.

4. The Company is instructed to revise the life insurance illustrations to include statements explaining non-guaranteed elements and the years in which premiums are scheduled to change. The Company is further instructed to retain a signed copy of the illustration for 3 years and ensure that any revised illustrations given to the insured are identified as "revised", pursuant to RCW 48.23A.040(1) and 060.

Comment: The product requiring the illustration has since been discontinued as of 5/1/2004. The instructions will be adhered to for any future products that may be developed that would require illustrations.

5. The Company is instructed to require the applicant's signature any time the original application has been altered manually. RCW 48.18.070(1)

Comment: This procedure has been implemented since July 2003 and staff trained accordingly. A more detailed process can be found in our Compliance Plan.

6. The Company is instructed to comply with all provisions of the Washington Replacement Regulation, WAC 284-23-400 through 485, specifically the following items: WAC 284-23-450(2), WAC 284-23-455(1),(2)(b) and (4).

Comment: Starting in November 2002, PEMCO Life has put into effect revised replacement procedures and trained all processing staff and the agency force on the required notices and proper handling for both internal and external replacements. PEMCO Life now sends out an instructional memorandum once a year beginning in December 2002 to all Agents licensed to sell life insurance on

the replacement regulations and company procedures. Details of the procedure and annual training of the regulation can be found in our Compliance Plan.

7. The Company is instructed to file and obtain approval from the OIC for all policy, application, and endorsement forms prior to use. RCW 48.18.100(1).

Comment: Since the examination we have inventoried all forms and created safeguards within the forms administration area to ensure compliance. The details can be found in our Compliance Plan.

We offer the following comments regarding the recommendations:

1. The Life Services Unit consists of a small number of employees. Because of this, employees are given a broad range of duties. For example, the underwriters have authority to issue policies up to \$500,000 face amount without review by another employee, and they are responsible for approving death and disability claims. In addition, they perform in-force policy transactions such as beneficiary changes, address changes and policy loans. The Company has not set up internal controls to monitor these transactions.

It is recommended that the Company work with its internal audit staff to define roles of each Life Services employee and set in place a system of checks and balances to ensure that each person's span of control is appropriate to their position.

Comment: Underwriting authority levels have been reviewed starting in July 2003 and revised based upon proficiency and experience level. New review processes have been implemented to assist with internal controls. Claim responsibilities are being segmented and separated from the underwriting function. Details including the internal controls are documented in our Compliance Plan.

2. It is recommended that the Company identify the source of all statistics used in advertising materials. WAC 284-23-050(12)

Comment: Since September 2003 all advertising material includes a compliance review to, among other things, ensure that the source of all statistics is appropriately identified.

3. The receipt attached to the application acknowledges that the Company has received premium from the Applicant. Because this transaction is considered to be a receipt for the start of temporary insurance prior to final underwriting decisions, it is recommended that the Company instruct agents to give this receipt to the applicant when taking money. WAC 284-23-550(1)

Comment: Since the examination all agents have been notified of this requirement and the information is now included in agency training.

4. There were several areas concerning replacement processing where the Company appears to be lax in requiring agents to follow the stated procedures. It is recommended that the Company send out updated instructions to agents in the form of a current bulletin. WAC 284-23-450(1).

Comment: An annual IMPORTANT NOTICE is sent electronically to our entire agency force. The memorandum is titled: **IMPORTANT NOTICE REGARDING LIFE INSURANCE REPLACEMENT PROCEDURES**. The notice, which was initially distributed in December 2002, is sent each year. We have also incorporated a large amount of time to replacement transactions in our agent training and education programs.

5. It is recommended that the Company revise its claims procedures to include steps for the processing of simultaneous death, and accelerated death benefit claims.

Comment: Claim procedures are currently being reviewed and will include steps for processing simultaneous death and accelerated death benefit claims.

6. It appears that the Company does not consistently follow the Unfair Claims Settlement Practices regulation (WAC 284-30-300 to WAC 284-30-380). It is recommended that the Company review these regulations and take steps to ensure that they are followed at all times. It is further recommended that the Company institute a quality audit program to ensure compliance with these regulations.

Comment: Please see the response to #5 above. The current review of our claim processes includes utilization of all applicable regulations and statutes as well as industry best practices to improve existing procedures. A more detailed claims process is in our Compliance Plan.

7. It is recommended that the Company advise the claimant in writing of the acceptance or denial of a claim within 15 working days of receipt of a properly executed proof of loss. The written denial must include the specific reason for the denial. WAC 284-30-380(1).

Comment: This recommendation has already been incorporated into our claim processes and procedures.

I also wish to express my appreciation for the efforts of the examiners and for your review of our comments.

Sincerely,



Chris A. Jahrman
Company Manager
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